



UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEW JERSEY

MARK E. FELGER (MF9985)
JERROLD N. POSLUSNY, JR. (JP7140)
COZEN O'CONNOR
LibertyView, Suite 300
457 Haddonfield Road
Cherry Hill, NJ 08002
(856) 910-5000
Attorneys for the Debtors

In re:

SHAPES/ARCH HOLDINGS L.L.C., et al.,

Debtors.

Case No. 08-14631(GMB)

Judge: Gloria M. Burns

Chapter: 11

**STIPULATION AND ORDER BETWEEN THE REORGANIZED
DEBTORS AND ARGONAUT INSURANCE COMPANY**

The relief set forth on the following pages, numbered two (2) through four (4), is hereby
ORDERED.

DATED: 3/20/2009



Honorable Gloria M. Burns
United States Bankruptcy Court Judge

Page 2

Shapes/Arch Holdings L.L.C., et al.

Case No. 08-14631 (GMB)

Stipulation and Order Between the Reorganized Debtors and Argonaut Insurance Company

Pursuant to its Motion to Determine Allowed Claims of Class Claimants Under 502(c) of the Bankruptcy Code and Related Relief (the “Motion”), filed by Shapes/Arch Holdings L.L.C., et al. (collectively, the “Reorganized Debtors”) on or about June 20, 2008, the Reorganized Debtors seek an order determining the amount of the Allowed Claim (as such term is defined in the Motion) of the proof of claim filed by Argonaut Insurance Company (“Argonaut”) on May 14, 2008 in the amount of \$921,000.00, plus contingent and unliquidated amounts (“Argonaut’s Claims”).

Argonaut’s Claim is secured by a letter of credit provided by the Reorganized Debtors currently in the amount of \$1,097,495.81 (the “L/C”) and a cash escrow in the amount of \$164,031.91 (the “Escrow”).

The Reorganized Debtors and Argonaut have examined the amount of Argonaut’s Claim and have reached agreement with respect thereto as described below:

NOW, THEREFORE, subject to the Court’s entry of an order approving this Stipulation, it is hereby stipulated and agreed by and between the Reorganized Debtors and Argonaut as follows:

AGREEMENT

1. Upon entry of an order approving this Stipulation:
 - (a) Argonaut’s Claim shall be treated as an allowed, secured claim in a contingent, unliquidated amount, but in no event higher than \$800,000.00;
 - (b) The amount of the L/C shall be reduced to \$717,984.04 by amendment thereto initiated by Argonaut within ten (10) days of entry of the Order;

Page 3

Shapes/Arch Holdings L.L.C., et al.

Case No. 08-14631 (GMB)

Stipulation and Order Between the Reorganized Debtors and Argonaut Insurance Company

(c) Argonaut shall remit \$82,015.96 to the Reorganized Debtors within ten (10) days of entry of the Order and may continue to hold the balance of the cash escrow in the approximate amount of \$82,015.96;

(d) Argonaut shall be entitled to satisfy Argonaut's Claim as such obligations arise exclusively from the cash escrow and the proceeds of the L/C pursuant to the terms of the various policies of insurance provided by Argonaut to the pre-petition debtors and such other security agreements as exist between Argonaut and the pre-petition debtors;

(e) On a semi-annual basis commencing on January 1, 2010, Argonaut will re-calculate its collateral requirements and inform the Reorganized Debtors of any reductions thereto; and

(f) In the event that the Reorganized Debtors disagree with Argonaut's collateral requirements upon such semi-annual reviews and the parties are unable to reach agreement with respect thereto, the Bankruptcy Court shall retain jurisdiction over any disputes arising with respect to Argonaut's collateral requirements through the date that these Chapter 11 cases are closed. Thereafter, any such dispute shall be resolved by a court of competent jurisdiction.

2. This Stipulation and the terms and conditions herein shall not become effective and shall be of no force or effect unless and until it is so ordered by the Bankruptcy Court, and this Stipulation may not be modified other than by a signed writing executed by the parties hereto or by further order of the Bankruptcy Court.

Page 4

Shapes/Arch Holdings L.L.C., et al.

Case No. 08-14631 (GMB)

Stipulation and Order Between the Reorganized Debtors and Argonaut Insurance Company

3. This Stipulation may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument, and it shall constitute sufficient proof of this Stipulation to present any copy, copies or facsimiles signed by the parties hereto to be charged.

4. Each person who executes this Stipulation represents that he is counsel for his representative client and is authorized to execute this document on behalf of his respective client.

Dated: March 17, 2009

COZEN O'CONNOR

By: /s/ Jerrold N. Poslusny, Jr.
Mark E. Felger, Esquire
Jerrold N. Poslusny, Jr., Esquire
A Pennsylvania Professional Corporation
Liberty View, Suite 300
457 Haddonfield Road
Cherry Hill, NJ 08002
Telephone: 856-910-5000
Fax: (856) 910-5075

Counsel for the Reorganized Debtors

KIRKLAND & ELLIS LLP

By: /s/ Brian S. Lennon
Brian S. Lennon, Esquire
Citigroup Center 153 East 53rd Street
New York, NY 10022-4675
Telephone: (212) 446-4800
Fax: (212) 446-4900

Counsel for Argonaut Insurance Company

CHERRY_HILL\520116\1 226314.000